State of Wisconsin

Department of EmployeeTrust Funds Group Health Insurance Program

2024 Health Insurance Rate Setting and Reserving

Actuarial Audit

December 13, 2024

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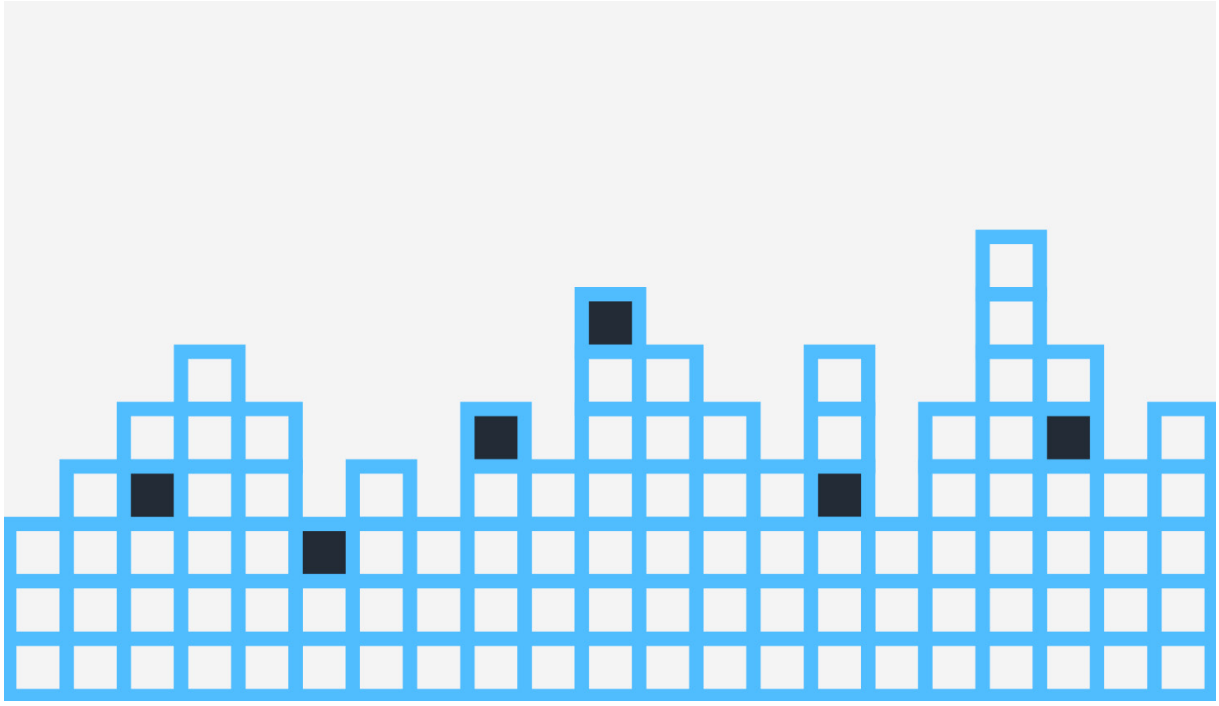

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Certification

We have performed an actuarial audit review of the 2024 Health Plan Rate Setting and Reserving process and results presented to the State of Wisconsin Group Insurance Board (“GIB” or “Board”) in August 2023 by Segal, the actuary for GIB. This report presents the results of our review. An overview of our findings is included in **Section 1** of the report. More detailed commentary on our review process and findings is included in the latter sections.

Milliman’s work product was based on the Department of Employee Trust Funds’ (”ETF”) and Segal’s process and assumptions for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the operations of the State of Wisconsin Group Health Insurance Program (GHIP) and uses data described in Appendix A, which Milliman has not audited. No third-party recipient of Milliman’s work product should rely upon Milliman’s work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs. If this report is distributed to other parties, it must be copied in its entirety, including this certification section. Milliman consents to release of this report to Segal.

In preparing this report, we relied, without audit, on information (both oral and in writing) furnished by ETF and Segal. We would like to express our appreciation to the ETF staff and the Segal staff for their assistance in supplying the requested information and for providing prompt responses to our questions.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries. The consultants who worked on this assignment are health care actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The signing actuaries are independent of GIB and ETF. We are not aware of any relationship that would impact the objectivity of our work. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

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Section 1 Summary of Findings

PURPOSE AND SCOPE OF THE ACTUARIAL AUDIT

The Department of Employee Trust Funds ("ETF") engaged Milliman's services to perform an actuarial review of the State of Wisconsin's Group Health Insurance Program ("GHIP"). The purpose of the engagement is for Milliman to perform an audit of the actuarial assumptions and processes used by GIB's consulting actuary, The Segal Company ("Segal"), for health insurance programs. This report provides an assessment regarding whether Segal's actuarial assumptions used in annual health insurance rate setting process and reserving are reasonable and consistent with generally accepted actuarial standards and practices. Our review focused on medical, pharmacy and dental benefit coverage lines.

Our actuarial review encompasses the following:

- An assessment of the procedures and actuarial assumptions Segal used to estimate State and Local (separately) health insurance premiums including medical, pharmacy, and dental.
- An assessment of the procedures and actuarial assumptions Segal used to estimate State and Local (separately) future reserve balances.
- An assessment of whether Segal's valuation method and assumptions are reasonable and consistent with generally accepted actuarial standards of practice ("ASOPs").
- A review of the following assumption inputs for the State and Local plans, separately:
    - Claims information by the insurer
    - The actuarial model used
    - Rate caps, determined internally at ETF
    - Inflationary assumptions

A review of the reserve policy and fund projection and recommendations for changes.

We have provided a brief discussion of the relevant ASOPs in **Section 4** of this audit report.

AUDIT CONCLUSION

Review of Procedures, Actuarial Assumptions, and ASOPs used in Calculating Health Insurance Premiums

Based on our review of the process and the actuarial assumptions, we found that Segal used actuarial and underwriting processes consistent with those used in general actuarial practice. We believe the overall process and selection of actuarial assumptions to be reasonable. We recommend that Segal considers disclosing additional information regarding assumption development in their actuarial documents or referencing other sources, as described in various ASOPs. The review of the actuarial assumptions can be found in **Section 2** of this audit report. Specific recommendations are as follows:

- Review and analyze all assumptions periodically to determine their continued appropriateness. Examples include:
    - Review aggregate rate tier ratios relative to GHIP's specific claims experience by tier.
    - Review emerging experience for new groups compared to expected results to retroactively validate the risk adjustment assumptions that were initially used (when group size is credible.)
- Perform a claims analysis by plan type (non-HDHP vs. HDHP) to monitor actual claims by plan and ensure pricing differential continues to be appropriate. Provide reference to documentation of this assumption in future actuarial documents.

- Determine whether there is value in performing an independent regression analysis on historical pharmacy claims experience and incorporate a credibility factor to reflect a component for actual historical trends to represent differences in the GHIP's experience versus the marketplace.
- Consider shifting the dental experience period forward to include more recent claims and enrollment. This may be less of a concern with the shift in rate setting timing starting 2025.
- Consider including additional disclosures in all actuarial documents or references to documentation, as described in ASOP 41, to provide more transparency on the source of assumptions used in each analysis.

Review of Procedures, Actuarial Assumptions, and ASOPs used in Projected Reserve Balances
Based on our review of the GIB Reserve Policy and projected fund balances, we found the reserve estimation using the target ranges as a percentage of projected premiums or claims to be reasonable for medical and pharmacy, however, we found a target dental range of 5% to 7% to be higher than we would expect. The review of reserving process and results can be found in **Section 3** of this audit report. We have the following recommendations:

- Perform a periodic, formal actuarial review of the target ranges to ensure adequate provision for future risk.
- Perform a periodic actuarial evaluation of the pharmacy reserve target to ensure it is consistent with a range of "best estimate" to "moderately adverse" claims scenarios.
- Consider a lower dental target range based on the results of a formal actuarial review of the range. We understand that the range was increased to current levels in 2018 on the recommendation of prior actuaries.
- Consider an explicit premium deficiency reserve in years where rates are reduced under a "Buy Down" strategy and evaluate the appropriateness of this reserve with reference to ASOP 42.
- Consider performing additional sensitivity modeling in projecting fund balances that considers provision for adverse deviation, as described in ASOP 42.
- Continue to review GIB's reserve policy to clarify recommended process when fund balance falls below reserve target range.
- Consider including additional disclosures in actuarial documents, as described in ASOP 41, to provide more transparency on the source of assumptions used in each analysis.

AUDIT PROCESS

ETF and Segal provided data to Milliman, which included requested items such as medical, pharmacy and dental rate premium development including actuarial assumptions and reserve calculations, policy, and processes. A detailed list of the received information can be found in **Appendix A**. Milliman's review centered on the "2024 Health Plan Rates and Qualifications" document (the "Report") presented by Segal on August 16, 2023 to the Board. The Report provided the 2024 program renewal increases to fully insured medical, self-insured pharmacy, and self-insured dental, culminating with the aggregate rate increase. It also included the projected fund balance, reserves and 2024 premium increase alternatives based on meeting specific reserve targets for the Board's consideration.

Milliman requested, from Segal, additional documents detailing the selection of the actuarial assumptions and the calculation of results presented in the Report. We understand the results presented in the Report were the culmination of collaborative work between ETF and Segal over a number of months and had been delivered to different audiences in different ways during that time. Ultimately, the focus of Milliman's audit was on the

development of the final January 1, 2024 rates and the projected December 31, 2023 reserves. From Segal's workpapers, we were able to review the procedures and actuarial assumptions Segal used in developing health insurance premiums for each of the medical, pharmacy, and dental components, for State and Local groups, and further differentiated by actives, graduate assistants, and Medicare, and by plan type.

LIMITATIONS

The scope of our actuarial review did not extend to the following:

- A review of the overall financial soundness of the GHIP.
- A review of the data validation methodology; that is, the process used to validate carrier-provided claims and enrollment data with the claims warehouse.
- A replication of either the health insurance rate calculations or the reserve calculations.
- A comparison of incurred or paid claims and enrollment information directly from carriers or the data warehouse to validate the source data.
- A review of renewal information provided by each HMO.

Section 2 Actuarial Assumptions for Health Insurance Rate Setting

FULLY INSURED MEDICAL

For fully insured medical premium rate development, rate structures depend on several variables, including State vs. Local employer risk pool, benefit plan design, family vs. single enrollment, and Medicare coverage for retirees Segal performed an independent analysis to negotiate rates with the HMOs and assign a tier to each plan. A key part of this process is Segal's development of Tier Breakpoints. We reviewed the data and assumptions that were used by Segal to calculate Tier Breakpoints for State (Dane and non-Dane counties) and Local.

- Claims and enrollment information:
    - Source and validation: We understand there is a process in place between ETF and Segal where this data reported by the HMOs is verified with data in the data warehouse. This is a reasonable process that conforms to generally accepted actuarial practices. Documentation of data reports, sources, and validation process was provided on page 17 of the Report.
    - Experience period: The experience period used for evaluating fully insured rates was not provided in the Report. However, based on workpapers Segal provided, we understand that they requested and used 12 months of claims incurred in calendar year 2022 and paid through March 31, 2023. Segal's calculations pool the combined experience for multiple HMOs, and each pool is large enough to have sufficient credibility. Twelve months is a reasonable experience period.
    - Pooling: Separate calculations for State Dane, State non-Dane, and Local plans using each rating group's experience are consistent with how HMOs quote rates and are reasonable, given each group's different risk characteristics. Since Dane represents over half of total State members and both sets of populations are large enough to be credible, it is reasonable to separate the calculations to reflect the costs, risk profile, and demographics specific to each pool. While Local plans are not currently split by Dane and non-Dane, if there is a similar concentration of members in Local plans in Dane County, ETF may want to consider also pooling Dane and non-Dane separately for Local.
- Actuarial assumption model used / rate caps: We reviewed Segal's Tier Model Summary and Tier Rate Development files, which they used to calculate Tier Breakpoints. We have included a detailed summary of the assumptions we reviewed in those models in **Appendix B**. We understand that most of these assumptions are evaluated each year relative to recent carrier experience, which is appropriate. While an overall description of the process was provided in the Report, specific assumptions were not disclosed in the Report. Sources for assumptions were not provided in the work files but were provided upon request. We recommend including more complete documentation in the Report (or reference to other actuarial documents which disclose the assumptions) as described in ASOP 41, Actuarial Communications.
- Inflation assumptions: The medical trends provided by the HMOs were capped using Segal survey trend data, and these caps vary between fee-for-service and capitated arrangements. These trends are within Milliman's Health Cost Guidelines™ [1] ranges. The source for trend assumptions was not initially provided in the work files but was provided upon request. We recommend including more complete documentation in the Report (or reference to other actuarial documents which disclose the assumptions) as described in ASOP 41, Actuarial Communications.

[1] The Milliman Health Cost Guidelines™ (HCGs) are a cooperative effort of Milliman health actuaries and represent a combination of their experience, research, and judgment. An extensive amount of data is used in developing the HCGs, and that data is updated annually.

Recommendations and Implications of Recommendations - Medical Assumptions and Procedures
We provided specific recommendations for each assumption used in the medical calculations and assumptions in **Appendix B.** Based upon our review, we believe these assumptions to be reasonable. We recommend including more complete disclosures in actuarial documents, as described in ASOP 41, to provide more transparency on the source of assumptions used in this analysis.

SELF-INSURED PHARMACY
Similar to the medical premium rate setting process, rate structures developed for self-insured pharmacy premium rates depend on several variables, including State vs. Local employer risk pool, benefit plan design, active employee vs. graduate assistants, family vs. single enrollment, and Medicare coverage for retirees. Segal separately projects costs by different rating pools to determine a projected plan paid per member per month (PMPM) amount to be included in the overall aggregate health insurance premium for each pool.

- Claims and enrollment information:
    - Source and validation: Segal and ETF appear to use a reasonable claims and enrollment validation process for validating information provided by Navitus. The validation process was described on page 32 of the Report.
    - Experience period: 12 months ending May 31, 2023. Each of the pooled groups is large enough to have sufficient credibility. Therefore, 12 months is a reasonable experience period. The experience period was described on page 32 of the Report.
    - Pooling: Separate calculations for State (Actives (non-Graduate Assistants), Graduate Assistants, Medicare) and Local (Actives, Medicare) plans using each rating group's experience are reasonable given each group's different risk characteristics. The pooling was clearly shown in the workpapers, and while not explicitly described in the Report, a summary of premiums split out for each of the pooled groups was shown on page 26 in the Report.
- Actuarial assumption model used: Segal provided their "2024 Rx Rate Calculation" model. We reviewed both the model and the assumptions used in the model and found them to be reasonable and consistent with generally accepted actuarial practices. The assumptions and methodology were described on page 32 of the Report, including reference to reliance on Navitus assumptions, in accordance with ASOPs 23 and 41. We have included a detailed summary of the pharmacy assumptions we reviewed in **Appendix B** and do not have any recommendations for changes. Segal developed separate rates for High Deductible Health Plans (HDHPs) vs. non-HDHPs. The rates were provided in the Report. Upon request, Segal informed us that they applied a rating factor to the pharmacy PMPM costs to create a spread between the HDHP and non-HDHP plan rates; however, there was no documentation as to how the rate differentials were derived. Using traditional actuarial practices, this could be based on actual claims data, risk selection, relative value, or a combination. While Milliman did not independently model or calculate the actuarial value for the plans, we feel this is within a reasonable range. This assumption was not documented in the Report.
- Inflation assumptions: Segal used pharmacy trend assumptions based on a blend of Segal's survey trend data and Navitus' projected trend, as noted in the Report. These trends are within Milliman's Health Cost Guidelines™ ranges. Segal provided a historical trend graph in the Report. They also provided the Navitus workbook which showed the Navitus trend template, which incorporates historical GHIP experience in the development of proposed Navitus trend assumptions.

Recommendations and Implications of Recommendations - Pharmacy Assumptions and Procedures
We recommend performing a claims analysis by plan type (non-HDHP vs. HDHP) to monitor the actual claims by plan and ensure the pricing differential continues to be appropriate. If enrollment in the HDHPs is minimal, the current relative value pricing is likely reasonable. However, there is a risk of not accounting for risk selection or behavior change. If the two plans are priced too close together, then the HDHP participants may be subsidizing

the PPO plan. We recommend that this assumption be documented in the Report (or reference other actuarial documents which disclose the assumptions) as described in ASOP 41, Actuarial Communications.

Given the GHIP's actual pharmacy trend has exceeded projected trends, we recommend Segal considers performing an independent regression analysis on historical pharmacy claims experience and incorporating a credibility factor to reflect a component for actual historical trends to represent differences in the GHIP's experience versus the marketplace. This may result in more precise pharmacy trend assumptions.

SELF-INSURED DENTAL
Unlike medical and pharmacy rating, Segal projects dental costs for the entire group and develops a single set of dental rates.

- Claims and enrollment information:
    - Source and validation: Segal described the data source on page 37 of the Report. No description of the validation process was provided in the Report.
    - Experience period: 12 months incurred in 2022 and paid through April 2023. While a 12-month experience period is reasonable based on group size, the incurred date range period could be shifted to more recent experience. The experience period was described on page 37 of the Report.
    - Pooling in Aggregate: Dental claims are a small component of overall costs and are typically not very volatile, so it is reasonable to pool experience across State and Local plans. This assumption was described in the Report.
- Actuarial assumption model used: Segal provided their 2024 ETF Dental Projection model. We reviewed both the model and the assumptions used in the model and found them to be reasonable and consistent with generally accepted actuarial practices. We have included a detailed summary of the dental assumptions we reviewed in **Appendix B**. Assumptions were documented in the Report.
- Inflation assumptions. The dental trend used for 2024 is based on Segal's survey trend data and falls within Milliman's Health Cost Guidelines™ ranges. This assumption was described in the Report.

Recommendations and Implications of Recommendations - Dental Assumptions and Procedures
The dental rate calculation resulted in a 0.8% increase. However, upon request Segal informed us the recommended rate action was 3.0% based on emerging experience. We recommend considering shifting the experience period to include more recent incurred claims to prevent a disconnect in the future and to be consistent with the experience period used in the pharmacy projections.

AGGREGATE RATE SETTING
As a final step in the rate setting process, Segal calculates aggregate renewal rates by combining final HMO and pharmacy rates. Segal provided the final workbook combining all coverage lines and explained the process as follows: Segal adds the pharmacy rate by group (State vs Local and active vs Medicare) to the appropriate HMO medical rate by plan.

The dental rates are then added as an option on top of the combined medical and pharmacy rates. Since there is only one dental option, this process is in line with what we would expect.

The overall aggregate Family rate is set at 2.5 times the Single rate. We understand this has been the pricing strategy for a number of years. The current 1:2.5 ratio is within a reasonable range of a standard two-tier rate structure in Milliman's Health Cost Guidelines™.

Recommendations and Implications of Recommendations - Aggregate Assumptions and Procedures
Since the size of GHIP is large enough to be credible, we recommend periodically reviewing the tier ratio relative to GHIP's specific claim experience by tier. Spouses are actuarially more expensive than members, and children are actuarially less expensive than members or spouses. If indicated by analysis, adjusting the tier ratio could better align the actuarial expectations with the actual cost but could result in winners and losers. While we might also suggest considering expansion to a three or four tier structure, we understand this may not be feasible, as it would require statutory change.

NEW GROUPS
There is a process in place to evaluate new groups that apply to join the GHIP. Segal explained the process and provided us with their 2023 Surcharge worksheet. We reviewed the worksheet and the assumptions and believe it is consistent with generally accepted actuarial practices. We recommend this process be monitored by comparing expected results with actual emerging experience to validate the risk adjustment group assumptions, where credible. A summary of assumptions that we reviewed is included in **Appendix B**.

Section 3 Actuarial Assumptions for Projected Reserve Balances

RESERVE POLICY AND PROJECTED FUND BALANCE

Reserve Policy

The GHIP reserve policy, as established and managed by GIB, and the reserve targets are reviewed by the Board at least every three years. In our findings, we believe it is reasonable to set and maintain a reserve near the midpoint of the target ranges based on a percentage of projected premiums (medical) or claims (pharmacy and dental). When reserves are above the target, these funds can be used to reduce rates, which is reasonable. At the time of the Report, it appears the Board did not have a clear process when the fund balance falls below the target. However, ETF shared a Reserve Policy Discussion memo with us, dated October 25, 2023, with recommendations that resulted in clarifications that require the Board to adopt a plan to return to the target range within five years when reserves are either above or below the target. The current policy allows flexibility for a variety of responses, depending on each year's particular circumstances.

The GHIP Reserve Policy target is defined by the following ranges and is set separately for State vs. Local programs and has a stated goal of maintaining a reserve balance near the midpoint of the aggregate target range:

- Medical: 3%-5% of projected premiums
- Pharmacy: 8%-10% of projected claims, gross of pharmacy rebates
- Dental: 5%-7% of projected claims

The Reserve Policy requires the Board adopt a plan to return reserve balances to the target range within no more than five years in any year reserves are expected to fall outside the target range for any reason. When reserves are above the target, these funds can be used to reduce rates.

We reviewed the Reserve Policy and fund balance projections and included a summary of assumptions we reviewed in **Appendix B.**

We found the target ranges for medical and pharmacy to be reasonable. While medical premiums account for the largest portion of annual costs, medical is fully insured and therefore, premium costs should be predictable with little to no variation. Pharmacy claims are self-insured, and there is a likelihood of unpredictable high-cost claims. Basing the reserve on projected pharmacy claims, gross of pharmacy rebates adds conservatism to the reserve. We agree with this approach. It appears that pharmacy claims have exceeded projections in recent years, so we believe it would be advisable to continue to exclude pharmacy rebates from the reserve calculation.

The dental target range of 5% to 7% of dental projected claims is a higher range than we would expect given the generally low volatility of dental claims, which is primarily because plan costs for dental are capped by the annual maximum benefit. The annual maximum also means there is no risk to GHIP of high-cost dental claims. Given this, we recommend considering a lower target range for dental.

Projected Fund Balance

In the Report, Segal provided projected fund balances, separately by State and Local, based on the reserve balance provided by ETF as of 12/31/2022 by coverage line (medical, pharmacy, and dental). Segal started with the 12/31/2022 reserves and projected 2023 revenue and expenses to estimate the reserve at the end of the 2023 calendar year.

The Rate Setting Refresher Training provided by ETF describes a "Buy Down" process that reduces premiums when the fund balance is in excess of the target range. We did not find, however, that there is a clear process that addresses when the fund balance falls below the target range. Due to poor investment returns and higher than projected pharmacy claims, the projected 2023 fund balance fell below the midpoint reserve targets, and, therefore, there was no surplus available to reduce 2024 rates. Several options were presented to the Board. Local premiums were increased as indicated by 2024 projected claims and expenses without taking from or

adding to reserves. The Board approved increasing State premiums by more than 2024 projected claims and expenses in order to return reserves to the target midpoint in the future.

While Segal provided multiple scenarios that illustrated rate increases required to meet different reserve targets, they did not vary the projection assumptions. The fund projections include a single scenario, assuming subsequent years' costs will be entirely offset by revenues and the assumed investment income return based on the asset allocation of the funds invested. Segal disclosed these assumptions in the Report. Under ASOP 28, actuaries should consider appropriateness of a provision for adverse deviation, and we recommend that Segal considers including this in the future.

Recommendations and Implications of Recommendations – Reserve Policy and Fund Projection
As described above, we recommend considering a lower target range for dental. Since dental claims volume is small relative to the size of the Fund, any adjustment to the dental target range would have relatively small impact to the aggregate reserve balance.

We recommend considering a periodic actuarial evaluation of the pharmacy reserve target to ensure it is consistent with a range of "best estimate" to "moderately adverse" claims scenarios. This could be done using a Monte Carlo simulation or other actuarial modeling. Understanding the range of potential future claims highlight opportunities to prepare for adverse scenarios and include this information as part of rate action decisions. Additionally, in years where rates are reduced under a "Buy Down" strategy, an explicit premium deficiency reserve could be considered, and ASOP 42 should be reviewed in evaluating the appropriateness of such a reserve.

In order to better understand and plan for potential future volatility of the fund balance, we recommend evaluating multiple projection scenarios. These might include additional sensitivity modeling around certain assumptions such as adverse pharmacy and dental claims scenarios, return on investment scenarios, and expense assumption scenarios. Ideally, this analysis would be presented in an actuarial reserve report on the reserve calculations that could also serve to validate the adequacy of the target ranges under the reserve policy.

As part of the periodic review of the reserve policy, we recommend GIB evaluates whether further clarifications are appropriate to the process that is to be followed in years when the projected Reserve Fund falls below the target range due to unforeseen events such as the unexpected turn in the market that impacted this audit year. We believe it is appropriate to retain the flexibility the reserve policy provides, so any clarifications may be in the form of supplemental procedures or considerations. This might involve establishing minimums and maximums of the differentials between reserve contributions or buy downs and required premiums. Sensitivity analysis as described above can assist in this development process. Implementing capped premium increases and reserve minimums could mitigate the premium and reserve fluctuations year over year. Revisions to the midpoint reserve policy could be considered to potentially build up the reserves in the favorable years to maximum amount. Of course, as part of this, the Fund's financial standing should be monitored throughout the year.

Section 4 Actuarial Standards of Practice (ASOPs)

PURPOSE OF ASOPS

ASOPs are standards that are established and continually updated by the Actuarial standards Board (ASB) and are essential in maintaining professionalism and trust in the actuarial field. A brief overview of the purpose that the ASOPs serve is as follows:

- The ASOPs provide actuaries: "guidance on the techniques, applications, procedures, and methods that reflect appropriate actuarial practices in the U.S."[2]
- Members of actuarial organizations in the U.S. are required "to satisfy applicable ASOPs when rendering actuarial services in the U.S."[3]
- "While these ASOPs are binding, they are not the only considerations that affect an actuary's work. Other considerations may include legal and regulatory requirements, professional requirements promulgated by employers or actuarial organizations, evolving actuarial practice, and the actuary's own professional judgment informed by the nature of the engagement. The ASOPs provide a basic framework that is intended to accommodate these additional considerations."[2]

DESCRIPTION OF RELEVANT ASOPS

Below is a list of ASOPs that we believe are relevant to Segal's work for rate setting and reserving in health plans.

1. ASOP 23: Data quality. This ASOP provides guidance to actuaries on selecting, reviewing, using, and relying on data in their actuarial work. Actuarial communications should contain or reference disclosures regarding source and selection of data, review of data, use of data, and reliance on data provided by others.
2. ASOP 41: Actuarial communications. This ASOP provides guidance to actuaries on the communication of actuarial findings to intended users and applies to all forms of actuarial communication, including written, electronic, and oral communications. Among other things, this ASOP requires actuaries to disclose any material assumptions, methods, and data used in their analysis, document their work, and communicate any uncertainties or limitations in the findings in actuarial documents. An actuarial document is defined as an actuarial communication in any recorded form including letters, reports, e-mails, presentations, etc.
3. ASOP 28: Statements of opinion on assets and liabilities. This ASOP provides guidance to actuaries when issuing statements of actuarial opinion on health insurance assets and liabilities. Among other things, this ASOP requires actuaries to identify applicable balance sheet items within the scope of the opinion and determine whether a provision for adverse deviation is appropriate for the intended purpose.
4. ASOP 42: Health and disability actuarial assets and liabilities other than IBNR. This ASOP includes considerations for estimating premium deficiency reserves.
5. ASOP 56: Financial modeling. This ASOP emphasizes the importance of understanding the limitations and potential risks of models, as well as the need for transparency and thorough documentation.

In our review of Segal's Report that was delivered to GIB, we recommend providing additional documentation and disclosures based upon guidelines prescribed in the ASOPs. We understand there may have been other deliverables provided to ETF that were not provided to Milliman that may have provided such documentation. We recommend Segal evaluates each actuarial document to determine whether additional disclosures or other documentation should be included or if it is more appropriate to reference other actuarial documents that meet ASOP requirements.

[2] https://www.actuary.org/content/actuarial-standards-practice-asops

[3] https://www.actuarialstandardsboard.org/wp-content/uploads/2013/10/asop001_170.pdf

Appendix A – Documents Provided

GIB 4D - PPT - 2024 Health Plan Rates and Qualifications - 08.16.23
Rate Setting Refresher Training
Group Health Insurance Program Reserve Policy
Reserve Policy Discussion Memo, dated October 25, 2023
Health Plan Tiers | ETF
2024 plan design documents and contribution rates
2023 IYC Rate Setting Plan – OSHP – FINAL 6.0
FUDS Tool
2024 Best and Final Rates Submission Tool
2024 Tier Rate Development - Local and State
2024 Tier Model Summaries - Local and State (Dane and non-Dane)
2024 Navitus Rx Trend Template
2024 Delta Dental Data Template
2024 Rx Rate Calculation
2024 Rx Rates
2024 Surcharge Calculation
2024 Dental Projections Exhibit
2024 Health Plan Service Area Qualifications
2024 Rate Build Master

Appendix B - Assumptions

2024 Medical Tier Breakpoint Calculation Assumptions

Wisconsin Department of Employee Trust Funds (ETF)
Health Plan Audit
2024 Fully Insured Medical Rate Setting Process

Tier Breakpoint Calculation Assumptions	Assumptions by Rating Group			Assumptions Development/ Calculations	Source or How is this Determined?	Is this reviewed annually?	Milliman Comments / Recommendations
	State Dane	State Non-Dane	Local				
Medical Annual Trends:							
FFS Annual Cap	5.5%	5.5%	6.5%	Segal / ETF	Segal/ETF review together, loosely based on trend surveys, actual trend experience, budget constraints	Yes	Within Milliman's Health Cost Guidelines™ range
Capitation Annual Cap	4.5%	4.5%	5.5%	Segal / ETF		Yes	
Medical Administration Fees (PMPM) Cap	$49.17	$51.90	$53.46	Segal / ETF	Segal/ETF review together, admin trend in previous years. Hasn't increased in several years. Budget constraints considered. Use as part of negotiation process.	Yes	Recommend revisiting for reasonability each year
Risk Adjustment Calculations							
Age-sex Table		calculated		Segal	Segal's National Claims Cost Analysis Database	No	
Risk Score		calculated		Segal	Merative data warehouse, based on actual claims	Yes	
Regional Factor		calculated		Segal	Segal's evaluation of 16 regions in WI based on Silver plans	Yes	
Weight applied to factors above (20%/30%/50%)				Segal	Evaluated periodically	No	No documentation for weighting; consider aligning analysis with actual loss ratios by HMO
Experience Adjustment	99.3%	97.6%	99.9%	Segal	Evaluated based on actual vs. average claims experience using data warehouse on a per service basis.	Yes	Continue to recalculate each year
Tier 1 Limit	92.0%	95.0%	97.5%	Segal / ETF	Annually reviewed for reasonability in light of overall loss ratios	Yes	Continue to evaluate assumptions annually copared to loss ratios
Tier 2 Limit	102.0%	102.0%	102.5%			Yes	
Utilization Adjustment Factor	0.0%	3.2%	0.0%	Segal	One-time assumption for HMO(s) leaving the program (Segal used Merative data, was not validated)	Yes	Validate third party assumptions
Dane/Non-Dane Geo Smoothing	-1.5%	2.5%	0.0%	Segal	Based on regional factors, discussed w/ ETF	Yes	Evaluate ETF's assumption between Dane/Non-Dane
Uniform Benefits Change (Local)	N/A	N/A	0.0%	Segal	Only if plan changes	Yes	
Quality Credit by Plan				ETF	ETF provides Segal the ranks	Yes	Evaluate ETF's assumption to loss ratios
Catastrophic PMPM Adjustment	varies by HMO			Segal	Segal calculates each year based on actual claims data	Yes	Reasonable practice
Capped Bid Rate Increases				Segal / ETF	Based on budget constraints	Yes	Continue to evaluate each year
Tier 1 Cap	6.0%	6.0%	10.0%				
Tier 1 % of State Rate	N/A	N/A	120.0%				
Tier 2 Cap			20.0%				
Tier 2 % of State Rate	N/A	N/A	130.0%				
Tier 3 Cap			30%				
Tier 3 % of State Rate	N/A	N/A	140.0%				
Single/Family conversion factors	varies by HMO			Segal	Calculated based on actual data	Yes	Recommend additional analysis to evaluate the 1:2.5 ratio of Single to Family contracts

2024 Pharmacy Rate Calculation Assumptions

	Assumptions by Rating Group							
Rx Rate Calculation Assumptions	State HMO/ Standard PPO	Grads HMO/ Standard PPO	State Medicare HMO/ Medicare Plus	Local HMO/ Standard	Local Medicare HMO/ Medicare Plus	Owner of Assumptions Development/ Calculations	Source or How is this Determined?	Is this reviewed annually?
Experience period	June 2022 to May 2023					Segal	Availability of data	yes
Rx Trend	9.67%	9.67%	9.86%	9.67%	9.86%	Segal	Navitus / Segal trend survey	yes
Exposure basis	Members					Segal	Navitus	N/A
Claims load for unknown	0.11%	0.11%	0.11%	0.11%	0.11%	Segal	Based on data	yes
Pooling adjustment	0.0%	0.0%	0.8%	-2.0%	-2.0%	Segal	Smoothing across State/Local	yes
Plan design/program changes	0.0%	0.0%	0.0%	0.0%	0.0%	Segal	N/A this year. Would come from Segal or be modeled by Navitus	yes
Projected rebates	included	included	included	included	included	Segal	Navitus data, reviewed by Segal	yes
Projected other subsidy	N/A	N/A	included	N/A	included	Segal	Navitus data, reviewed by Segal	yes
Projected direct subsidy	N/A	N/A	included	N/A	included	Segal	Navitus data, reviewed by Segal	yes
Administrative fees PMPM	$2.10	$2.10	$10.88	$2.10	$10.88	Segal	Navitus data, reviewed by Segal	yes

2024 Dental Rate Calculation Assumptions

Assumptions		Owner of Assumptions Development/ Calculations	Source or How is this Determined?	Is this reviewed annually?
Dental Projections				
Rating Group	All combined	ETF	Reasonable practice, peridodically reviewed	No
Experience Period	Incurred in 2022, paid through April 2023	Segal	Standard practice	Yes
Dental Trend	4%	Segal	Segal trend survey, discuss w/ Delta Dental	Yes
Exposure basis	Contracts	Segal	Segal looks at it both on member/EE basis	Yes
Completion factor	1.002	Segal	Segal calculation based on lag triangles. Factor seems reasonable.	Yes
Plan design adjustments	none	Segal	Review w/ Delta Dental	Yes
Administrative Fees	$1.10 PEPM	Delta	contracted amount	Yes
In force premium		Segal	Calculated on 2023 rates using Delta data, compared to revenue data	No

Other Assumptions

Assumptions	Owner of Assumptions Development/ Calculations	Source or How is this Determined?	Is this reviewed annually?
New Groups Surcharge Calculation			
Risk of group	Segal	Segal underwriter reviews experience	Yes
Scale of risk charge (0% to 40%)	ETF	Fixed	No
Surcharge calculation	Segal	Calc provided	Yes
Plan Administrative Fees			
Operational/Internal ETF Fees (e.g., data warehouse, wellness, ETF fee)	ETF	Sourced by ETF Division of Trust Finance, calculated annually based on actual or estimated costs and number of contracts.	Yes

Reserve Setting and Fund Projection Assumptions

Assumptions		Owner of Assumptions Development/ Calculations	Source or How is this Determined?	Is this reviewed annually?
Reserve Setting				
Reserve Groups	Separate for State and Local	ETF		No
Reserve Targets				
Medical	3% to 5% of projected premiums	Segal / ETF / Audit	Board policy Increased as a result of the last audit in 2019	At least every 3 years, per policy
Rx	8% to 10% of projected claims			
Dental	5% to 7% of projected claims			
Investment return assumption	6.70%	ETF	Ten year forward looking policy return based on asset allocation of how funds are invested.	Yes
Reserve target projected increase	5% / year	Segal	Aggregate renewal increase based on historical, long-term/near-term expectation	Yes

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